WORLD CHRONICLE

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PROGRAMME: "WORLD CHRONICLE"

GUEST: Wadi Haddad, Special Representative of the World Bank to the United Nations

JOURNALISTS: Raghida Dergham, Al-Hayat, London

Anthony Goodman, Reuters

Christopher Gunness, BBC

MODERATOR: Michael Littlejohns

SYNOPSIS

LEBANON: RECONSTRUCTION AND DEVELOPMENT

Wadi Haddad, Special Representative of the World Bank to the United Nations discusses Lebanon's needs for reconstruction and development. Private Lebanese capital, Mr. Haddad says, can be mobilized to help in the rebuilding of the war-ravaged country -- re-establishing economic and social stability and rehabilitating infrastructure and national services. To attract foreign aid and investment, he stresses that Lebanon must move towards political stability.

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VOICE: From United Nations Headquarters in New York, this is **WORLD CHRONICLE**, an unedited interview programme about major global issues. Here now to introduce our guest is the host of today's **WORLD CHRONICLE.**

LITTLEJOHNS: I'm Michael Littlejohns and this is **WORLD CHRONICLE.**

Lebanon, once one of the most prosperous countries in the Middle East, has been torn apart by a long and devastating civil war. The conflict has caused human suffering and destruction on a phenomenal scale. Much of the country's industry, agriculture and tourism have been destroyed. With the infrastructure and social services in disrepair, quality of life and human development have been adversely affected.

How can Lebanon regain its pre-civil war status? What can the international community do to assist in its rebuilding efforts?

Our guest today has a strong involvement in and a commitment to the situation in Lebanon. He is Wadi Haddad, Special Representative of the World Bank to the United Nations.

Mr. Haddad, a Lebanese-American, will be interviewed here at United Nations headquarters in New York by: Raghida Dergham of Al-Hayat of London; Anthony Goodman of Reuters and; Christopher Gunness of the BBC.

LITTLEJOHNS: Mr. Haddad, what kind of money are we talking about here to rehabilitate Lebanon?

HADDAD: Well, there are two stages that one has to think

about. One is an emergency rehabilitation programme which has to be put into effect very quickly and we are talking here about probably between 1 and 1.5b dollars which should be in place in about three years time. The larger programme will take much more, probably 5b dollars and here we're talking about public investment. Private investment is a different story.

LITTLEJOHNS: By public investment, you mean donations from countries like the United States, Japan, Germany, etc.?

HADDAD: No, it is what the public sector in Lebanon has to put in terms of capital investment to be able to revitalize the economy. Now, where this money will come from, it will have to be partly from the country itself and partly from foreign investment.

LITTLEJOHNS: Has there been any pledge of assistance from the oil-rich countries of the region?

HADDAD: Well, there was a meeting in December of last year which was chaired by the World Bank and all the major donors were invited including the Arab Fund, the EEC, the United States and some of the other multi-laterals also. So the Arab Fund's funds were there as part of a joint donor community. What was presented at that time was a short-term emergency rehabilitation programme which was in the vicinity of about 1.3b dollars. The foreign exchange component for that programme is about 700m dollars and the donors at that time expressed interest in financing the foreign exchange component within certain conditionalities.

LITTLEJOHNS: We're talking about huge amounts for a rather small country. Do you think it's realistic to expect these kinds of

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funds to be available?

HADDAD: Well, the 700m dollars over a three-year period is not a large amount of money. It's about 300m a year. Lebanon is credit-worthy, it is capable of borrowing this money at commercial terms because the foreign debt for Lebanon is only about 250m dollars. It's about 8% of its GNP and the servicing of this debt is very small compared to the exports. So the country is capable of borrowing this amount of money let alone the reserves it has. It has about 1.3b dollars in foreign reserves and it has the famous pig reserves in gold which is about 3.3b dollars considering the present value of gold. So with all this taken into consideration, the country has the capability to borrow. Now, to implement, that's a different question altogether and Lebanon, the public sector in Lebanon, has not had long experience in implementing a large reconstruction programme of this amount. The maximum it has been involved in has been about 40 to 50m dollars a year so when you're moving from this to such a large amount, then there are problems of implementation.

DERGHAM: So what does it take to re-build the country? You have pointed out that the country can borrow, that donors are available, that readiness is there, and yet nothing is happening. What does it take to re-build the country?

HADDAD: To re-build the country, there must be at least 3, 4 things happening at the same time. First we have to realize that a country in the situation of Lebanon, it would be naïve to think that the country can be re-built by the public sector alone. It has really to come to a situation where private financing and investment will play a major role. So what the state has to do is to provide the necessary framework so that private investment can

take place and Lebanon has a lot of national savings so there is no problem in terms of availability of money so for the state to be able to draw on private investment, it has to do three things: one, it has to provide the infrastructure that the private sector cannot provide and that's part of the first phase of rehabilitation. It has to provide electricity, telecommunications, transport and that's the infrastructure. Then, it has to provide the economic framework in terms of monetary regulations and economic policies to protect the currency, give it a strong base and also to bring down the inflation and the deficit and these are very hard choices. The third thing it has to do is to finance a rehabilitation programme for social services which the private sector is not capable of providing and has no incentive to provide -- education, housing, safe water and sewage treatment.

DERGHAM: Mr. Haddad, I don't know if you share this view but it seems to me that the problem is largely political. It's a matter of a lack of confidence in government. We read and hear about the attempts by private investors to go back into Lebanon and yet they are faced by what they have called the corruption of ministers and government officials. So does it boil down to that? That it is the political rot in the country that is preventing it from rehabilitation or reconstruction? Or do you not share this view?

HADDAD: Well, certainly, economic rehabilitation requires political stability and confidence and it is important for the country to feel that it has a political future otherwise private investors are not willing to take the non-commercial risks. People are willing to take commercial risks but non-commercial risks are something that is difficult to ask investors to take. The other thing is that the public sector has not been known in Lebanon to

implement large programmes and even before the war, the public sector was not looked upon as a leader in terms of development. There was always the private sector. Now after the war, the public sector is an even bigger problem because it has been depleted of the human capital. Lots of people have left, people have retired and they were not replaced so there is a problem there in terms of human capital. Then there is also a problem in terms of procedures. What was modern 15 years ago, is not modern anymore in terms of procedures and public services and so on and so, one of the things that's being looked upon now is that if this programme is going to be put in place, Lebanon is going to need a lot of technical assistance.

GOODMAN: Mr. Haddad, in the last few months there has been a rather sharp turn-down in the Lebanese economy and I understand the Lebanese pound has lost about 25% of its value in the last month alone or so. What is the cause of this and how will it impinge on long-term plans for future development?

HADDAD: Certainly, the stabilization of the currency is going to be an important element in the rehabilitation programme because it is going to be very difficult if the currency is not stable for private investment to take place. There are at least two things that contribute to this: one, is the political situation -- the one which Raghida referred to -- if there is no confidence in the political situation and because Lebanon is fragile now it's coming out politically from a long period of devastation. Anything that happens within the country or in the region has a strong impact on the psychology of the people. Two, the regulations that were put in place have not worked very well so far in terms of taking care of the inflation and the deficit and both of these have been big problems. The government does not have much of a leeway

in borrowing internally to take care of the deficit because the internal debt is pretty high, it's more than 2b dollars. So, it has one of two choices, either to print more money which raises the inflation and lower the value of the currency or to borrow more so it's really caught in the middle of two basic problems and the solution to this is really to go ahead with a huge economic reform which will lower the expenditure and take care of this element.

GOODMAN: But have there been any short-term reasons for this rather sudden turn-down. Is Lebanon catching a cold because America and western Europe have been sneezing during the recession or is it the after effects of the Gulf War which are now working through the economic pipeline? Are these some of the contributory factors?

HADDAD: Well, these are factors that are contributing to the recession worldwide. Definitely, but there are certain elements that are unique to the country and again, because it's coming out of a long illness, any sneezing would create more problems for a country that is weak than for a robust economy.

GUNNESS: Mr. Haddad, Lebanon is a country under a double occupation -- the Israelis in the south and virtually everywhere else, you have the Syrians. Is it not futile to talk in terms of long-term development while you've got the internal insecurity caused by this double occupation?

HADDAD: Certainly, the political situation on the ground does have an effect on the economic problem but there are certain things that you cannot wait until all the problems are resolved to address. The problems of the social sectors, the infrastructure, take time so you have to have a lead time to do this and the

country is faced with the same issue that all countries are faced with. Do you go linear or do you do things at the same time? If you go linear, then while you are resolving the political problems, the economic problems could become so devastating to the point that they are not reversible.

GUNNESS: You seem to have some kind of confidence in the international efforts to solve the political situation yet here we are in the United Nations, we have unimplemented Security Council resolutions telling the Israelis to get out, we have the tariff agreement which has been in place for a year and a half. It's made absolutely no difference as far as the economy is concerned. A lot of Lebanese people have no confidence in the tariff agreement. Are you really pinning your hopes on something which isn't worthy of your hopes?

HADDAD: Well, we in the World Bank approach things slightly differently. There is a division of labour. We have to be assured that the political situation has achieved a certain minimum before the World Bank would go in and invite other donors to come in and that's one reason that so far the Bank has not been active. There is a certain minimum, like sending missions to the country. If the security situation does not allow for that, certainly we cannot start a rehabilitation programme of financing but we are not involved ourselves in these issues and we are not part of the negotiations. Certainly, the UN system is very involved in this and very concerned about it.

LITTLEJOHNS: The programme is **WORLD CHRONICLE**. Our guest is Wadi Haddad, Special Representative of the World Bank to the United Nations.

GUNNESS: I appreciate what you're saying but in the short-term, you talk about one to one and a half dollars in three years. As a private investor, why should I invest in Lebanon? Why don't I invest in the city of London or Wall Street or Hong Kong or Tokyo? Why should I be attracted to Lebanon given that the agreements such as the tariff agreement which are there have not yielded the short-term results in terms of economic performance which I would like to see as an investor or indeed politically, the agreements, the Security Council resolutions, don't satisfy me in any way that I'm investing into a stable market?

HADDAD: Certainly, this is a concern on the part of the private sector, it's also a concern of the World Bank. The World Bank would not move into a situation where it is felt that the investment does not have its returns. We are, the World Bank and the donor community, standing ready provided that the country does its share and this is something we cannot do for Lebanon. Lebanon has to do for itself through political means, through negotiations, through whatever. We are not part of that process but I agree with you that there is a certain minimum that has to be achieved before the donor community and the private sector will come in.

DERGHAM: I'll follow up on this question, if I may. Who has failed at arriving at this reform programme? You say that the country has to help itself, how has it been a failure? Is it individuals in the country or is it the political system altogether or is it the fact that Chris referred to that the political agreements or that the resolutions of the Security Council have not been implemented. Whose fault is it anyway? How could it be corrected?

HADDAD: I can only comment on the technical side. At the

technical side, what has happened so far is that the government of Lebanon has come to the donor community with a skeleton of a programme and there has been agreement that the elements of this programme do constitute a good beginning for a rehabilitation programme and it covers the infrastructure and some of its basic social services. Now to go ahead with this, it will take some more preparation.

DERGHAM: On whose part?

HADDAD: It will be a joint effort. We are not saying we'll wait for the government of Lebanon to prepare all the programmes. No, the World Bank is ready and it has made some attempts to do two things: one is to have an in-depth economic analysis because that's a pre-requisite for a large investment and two, to help the country in the preparation of the components of the programme. The security situation which is monitored by the UN has not helped so far for the international missions to be able to carry this but it is hopeful that in the next few months, this would happen and on the agenda, there is the possibility of another donor meeting where there may be a possibility of pledging which will take place in the summer.

DERGHAM: Let me put it in very simple language. You are an Arab, a Lebanese-American, so there are lots of Lebanese-Americans or Lebanese, as you pointed out, outside the country who have left the country quite a long time ago during the war and there is a need for their return. So they're listening supposedly to this programme, they're listening to a man who has been quite prominent politically in Lebanon, an advisor to a president and who is now in charge of a very important programme for the World Bank and they really want to understand in very simple language when is it and

what does it take to gain confidence and go back and either live in the country or take the children back or invest just simply from far away. What sense would you leave them with?

HADDAD: I don't think I'm ready to advise people when to go back to Lebanon. I did that once before and it didn't work but I would say that one good indicator is when the international community starts investing in the country. I think that's a good indicator because the World Bank, the European Community and other donors are not going to move in before they feel that the security situation, the political situation and the technical situation are all ready for this programme of investment.

GOODMAN: Mr. Haddad, the European Community, I think at Germany's instigation recently held up an aid package of, I believe in the neighbourhood of 120m dollars until two Germans being held hostage somewhere in Lebanon were released. Do you think this will sort of catch with other potential donors and lead them to hold back or do you think this is a one-time incident?

HADDAD: Well, we're not aware that the other donors are going to follow suit but we have been informed that the EC is going to be reluctant to be involved in any major programme as long as the situation that has stopped Germany from being involved continues to be there.

GOODMAN: And the EC is seen as one of the major players?

HADDAD: The EC is one of the major donors, yes.

DERGHAM: You mean as long as these two German hostages are in Lebanon, the EC has informed you they will withhold their

contributions?

HADDAD: That's our understanding, that this is going to create a problem. The next donor meeting is in the summer and many things can happen between now and the summer so technically, we're going ahead with all the preparations and when it comes to the donor meeting, then this will be an issue that will be placed on the table.

GUNNESS: I would like to focus again on the Syrian occupation, if I can. We had a situation after the recent snows in Lebanon where the Japanese government were reluctant to deal with the government in Beirut. They would rather deal with the Syrians because they're pragmatic and they knew that's where the power really lay. Now on the one hand, you say that the Lebanese people must find their own solution and on the other hand, we have a situation where because of the internal situation because of this huge Syrian presence and Syrian influence, the international donor community -- the Japanese in particular but there are others -- don't actually want to deal with the Lebanese. How do you answer that obvious disparity in this approach to Lebanon?

HADDAD: Certainly, bilateral aid -- you would expect it to be influenced by political considerations and that's why there's sometimes an advantage where a multi-lateral financial institution is involved. The Bank has already found enough donors interested in a multi-faceted rehabilitation programme and to wait until all the political problems of the country are resolved, may not be in the interest of the people, of the country. There are certain things the country has to be helped with economically -- social services, housing, infrastructure and so on, and again this is going to be certainly one of the issues that will be discussed in

the donors' meeting.

GUNNESS: But couldn't the World Bank do more politically?

HADDAD: The Bank is not mandated to be involved in these issues. There is the Security Council and other agencies of the UN that are involved in this and then there are the bi-laterals who hinge their support on the political situation.

GUNNESS: Don't you think foreign aid could be more conditional, say, upon a freer, neutral sovereign government in Lebanon? Aren't there economic pressures which it's perhaps irresponsible of the donor community not to apply?

HADDAD: Well, if the World Bank puts pressure on the government of Lebanon to do all these things, the question is: is this what will help or should the pressure be placed on who are considered to be more of the problem? But no matter what, the World Bank and many of the other donors are involved within a framework of conditionality; that the situation should be conducive for aid but the World Bank is not in a position to be involved in a political negotiation.

DERGHAM: What is the World Bank's most urgent advice to the Lebanese government right now -- that it is a certain policy that the government must adopt immediately? What would that be?

HADDAD: Well, I don't think we can do this now. We have a process by which we run the dialogue with the country and that is in the context of what we call a basic economic mission where we send a group of economists to study the situation and then have a dialogue with the country on a package of economic reform. Our

economists are all convinced that there is a need for a package of economic reform. Now what this package is will depend on the forthcoming mission that will go to the country when the security situation allows on the basis of which, there will be a programme for the preparation of the projects and the economic package would be part of the preparation of these projects because these projects are not going to be just mortar and bricks, it has to involve also some change in the economic policies.

DERGHAM: After the elections or before?

HADDAD: It depends on when the elections are but the plan for the mission is in the next two months.

LITTLEJOHNS: Mr. Haddad, that's all the time we have. Thank you for joining us on this edition of **WORLD CHRONICLE.**

Our guest has been Wadi Haddad, Special Representative of the World Bank to the United Nations. He was interviewed here at United Nations Headquarters in New York by: Raghida Dergham of Al-Hayat of London; Anthony Goodman of Reuters and; Christopher Gunness of the BBC.

I'm Michael Littlejohns. Thank you for joining us. We invite you to be with us for the next edition of **WORLD CHRONICLE.**

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